

April 15, 2009

Rating	Reduce
Price	Rs1,371
Target Price	Rs1,246
Implied Upside	-9.1%
Sensex	11,285

(Prices as on April 15, 2009)

#### Trading Data

Market Cap. (Rs bn)	786.1
Shares o/s (m)	573.5
Free Float	83.5%
3M Avg. Daily Vol ('000)	256.7
3M Avg. Daily Value (Rs m)	325.5

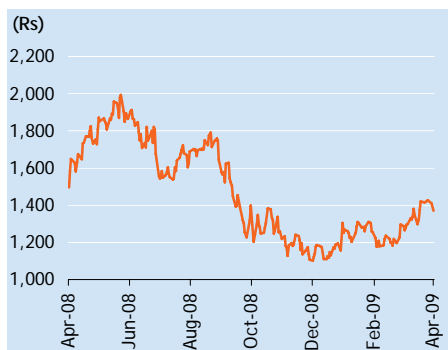
#### Major Shareholders

Promoters	16.5%
Foreign	34.9%
Domestic Inst.	26.8%
Public & Others	21.8%

#### Stock Performance

(%)	1M	6M	12M
Absolute	5.7	3.0	(8.3)
Relative	(23.1)	4.7	20.3

Price Performance (RIC: INFY.BO, BB: INFO IN)



Source: Bloomberg

## Infosys Technologies

### Earnings growth expected only in FY12

- Results in-line with expectations:** Infosys Technologies (Infosys) declared its Q4FY09 results, which were largely in-line with our expectations. Revenues declined by 2.6% sequentially to Rs56.4bn and net profits declined by 1.7% sequentially to Rs16.1bn. Loss on currency hedging came down sharply to Rs150m from Rs2,180m in Q3FY09, which helped the net profits to negate the effect of 6.9% sequential decline in EBITDA. Total forward hedges stands at US\$506m as on Q4FY09, as against US\$576m as on Q3FY09.
- Guidance disappoints:** We had expected flattish-to-marginal decline in the revenue and earnings guidance (in USD) for FY2010. However, Infosys gave a much weaker guidance for the next fiscal. Revenue for FY2010 is expected to decline by 3.1%-6.7%, whereas net profit is expected to decline by 10.9-15.0%. EBITDA margin decline of around 300bps caused by a dip in pricing (-300bps) and utilization (-400bps) has been factored in the next year's guidance. However, currency is expected to provide some relief (+450bps).
- Top clients survey gives a discouraging picture:** Infosys conducted a survey of its top 135 clients (who account for 83% of its revenues) to understand the tech spending outlook for the year ahead. Findings of the survey were too encouraging, with nearly 89% stating that IT budget for FY2010 will be down. Only 27% feel that offshore IT budget will increase in fiscal 2010 (5% stood for a double-digit increase, whereas 22% for a marginal increase), which suggests that even offshore IT spending will be affected adversely in this current environment.
- Earnings CAGR of just 2.5% over FY09-11:** Revenue for the next two years is expected to grow at a CAGR of just 6.3%, with earnings CAGR expected at 2.5%. With such muted growth over an extended period, Infosys' valuation is unlikely to re-rate upwards, in our opinion.
- Outlook & Rating:** Given the weak revenue and earnings CAGR over the next two years and continuing tough operating environment, Infosys stock is unlikely to attract investors for at least next 4-6 months. Valuation, while seemingly inexpensive at 13.2x FY10 earnings, need to be seen in the light of a low growth. Downgrade the stock to 'Reduce'.

Key financials (Y/e March)	FY08	FY09E	FY10E	FY11E
Revenues (Rs m)	166,920	216,930	220,835	245,301
Growth (%)	20.1	30.0	1.8	11.1
EBITDA (Rs m)	52,380	71,950	70,032	77,797
PAT (Rs m)	46,590	59,880	59,534	62,874
EPS (Rs)	81.3	104.4	103.8	109.6
Growth (%)	20.2	28.5	(0.6)	5.6
Net DPS (Rs)	33.3	23.5	28.0	50.0

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09E	FY10E	FY11E
EBITDA margin (%)	31.4	33.2	31.7	31.7
RoE (%)	37.2	37.4	29.3	26.3
RoCE (%)	37.2	37.4	29.3	26.3
EV / sales (x)	4.3	3.2	2.9	2.5
EV / EBITDA (x)	13.7	9.6	9.1	7.9
PE (x)	16.9	13.1	13.2	12.5
P / BV (x)	5.7	4.3	3.5	3.1
Net dividend yield (%)	2.4	1.7	2.0	3.6

Source: Company Data; PL Research

Apurva Shah  
ApurvaShah@PLIndia.com  
+91-22-6632 2214

Jaspreet Chhabra  
JaspreetChhabra@PLIndia.com  
+91-22-6632 2256



**Q4FY09 Result Overview (Indian GAAP)**

(Rs m)

Y/e March	Q4FY09	Q3FY09	QoQ gr. (%)	Q4FY08	FY09	FY08	YoY gr. (%)
Net Sales	56,350	57,860	(2.6)	45,420	216,930	166,920	30.0
Total Expenses	37,440	37,550	(0.3)	30,640	144,980	114,540	26.6
Software Development	30,450	30,750	(1.0)	24,820	117,650	92,070	27.8
Selling & Marketing	2,700	2,740	(1.5)	2,230	11,040	9,160	20.5
Others	4,290	4,060	5.7	3,590	16,290	13,310	22.4
Operating Profits / EBITDA	18,910	20,310	(6.9)	14,780	71,950	52,380	37.4
Depreciation	2,280	1,870	21.9	1,570	7,610	5,980	27.3
EBIT	16,630	18,440	(9.8)	13,210	64,340	46,400	38.7
Other Income	2,520	380	563.2	1,390	4,730	7,040	
PBT	19,150	18,820	1.8	14,600	69,070	53,440	29.2
Tax	3,020	2,410	25.3	2,110	9,190	6,850	34.2
<i>Tax rate (%)</i>	<i>15.8</i>	<i>12.8</i>		<i>14.5</i>	<i>13.3</i>	<i>12.8</i>	
PAT	16,130	16,410	(1.7)	12,490	59,880	46,590	28.5
<b>Key Ratios</b>							
<i>GPM (%)</i>	<i>46.0</i>	<i>46.9</i>	<i>(0.89)</i>	<i>45.4</i>	<i>45.8</i>	<i>44.8</i>	<i>0.9</i>
<i>OPM (%)</i>	<i>33.6</i>	<i>35.1</i>	<i>(1.5)</i>	<i>32.5</i>	<i>33.2</i>	<i>31.4</i>	<i>1.8</i>
<i>NPM (%)</i>	<i>28.6</i>	<i>28.4</i>	<i>0.3</i>	<i>27.5</i>	<i>27.6</i>	<i>27.9</i>	<i>(0.3)</i>
EPS (Rs.)	28.1	28.6	(1.7)	21.8	104.4	81.3	28.5

**Q4FY09 Result Overview (US GAAP)**

(\$ m)

Y/e March	Q4FY09	Q3FY09	QoQ gr. (%)	Q4FY08	FY09	FY08	YoY gr. (%)
Net Sales	1,121	1,171	(4.3)	1,142	4,663	4,176	11.7
Total Expenses	791	800	(1.1)	813	3,289	3,017	9.0
Software Development	650	661	(1.7)	664	2,699	2,453	10.0
Selling & Marketing	55	55	-	56	239	230	3.9
Others	86	84	2.4	93	351	334	5.1
EBIT	330	371	(11.1)	329	1,374	1,159	18.6
Other Income	51	7	628.6	35	101	175	
PBT	381	378	0.8	364	1,475	1,334	10.6
Tax	60	48	25.0	53	194	171	13.5
<i>Tax rate (%)</i>	<i>15.7</i>	<i>12.7</i>		<i>14.6</i>	<i>13.2</i>	<i>12.8</i>	
PAT	321	330	(2.7)	311	1,281	1,163	10.1
<b>Key Ratios</b>							
<i>GPM (%)</i>	<i>42.0</i>	<i>43.6</i>	<i>(1.5)</i>	<i>41.9</i>	<i>42.1</i>	<i>41.3</i>	<i>0.9</i>
<i>OPM (%)</i>	<i>29.4</i>	<i>31.7</i>	<i>(2.2)</i>	<i>28.8</i>	<i>29.5</i>	<i>27.8</i>	<i>1.7</i>
<i>NPM (%)</i>	<i>28.6</i>	<i>28.2</i>	<i>0.5</i>	<i>27.2</i>	<i>27.5</i>	<i>27.8</i>	<i>(0.4)</i>
EPS (Rs.)	0.56	0.58	(2.7)	0.54	2.23	2.03	10.1



## Guidance Table

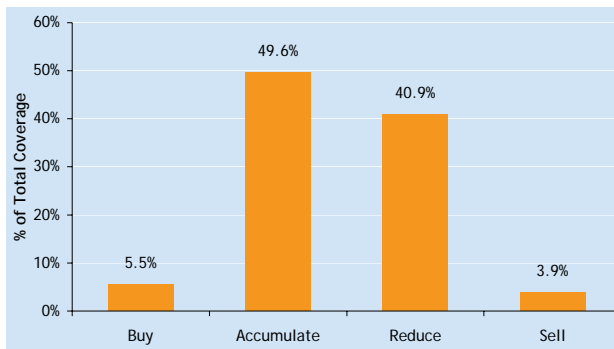
	Indian GAAP (Rs.)				US GAAP (USD)			
	Q1FY10		FY10		Q1FY10		FY10	
Revenues (mn)	53,790	54,800	220,660	229,280	1,060	1,080	4,350	4,520
EPS	23.6	23.6	96.7	101.2	0.5	0.5	1.9	2.0
<i>Revenue Gr</i>	<i>(4.5)</i>	<i>(2.8)</i>	<i>1.7</i>	<i>5.7</i>	<i>(5.4)</i>	<i>(3.7)</i>	<i>(6.7)</i>	<i>(3.1)</i>
<i>EPS Gr</i>	<i>(16.3)</i>	<i>(16.3)</i>	<i>(7.4)</i>	<i>(3.1)</i>	<i>(16.5)</i>	<i>(16.5)</i>	<i>(15.0)</i>	<i>(10.9)</i>

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.